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ABSTRACT

A thorough review of Lane Community College's purchase order system revealed that 62% of all purchase orders processed in 1981-82 were for amounts under $100; that these orders made up only 3.5% of the dollars expended in acquiring materials and services for college operations; and that each purchase order cost the college $75 in supplies and staff time. A situation analysis revealed several problems and needs associated with the purchase order system, leading to the identification of a number of possible long- and short-range solutions (e.g., establish an electronic transfer system, use Visa cards for small purchases, automate the warehouse catalog, create an information source regarding policies, modify signature requirements, and get departmental input regarding warehouse stock). Following an analysis of the potential solutions, the use of Visa cards for purchases under $100 was selected as the highest priority project to pursue. Following initial discussions between the director of financial services and a local bank, the college entered into one master contract agreement with the bank, which issued all cards. Following a pilot project, Visa cards were issued to more than two-thirds of the college's instructional departments for material and supply items under $100. The process has reduced by nearly one-half the number of steps formerly required by departments and greatly reduced costs. (LAL)

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VISA CARDS SAVE THOUSANDS

Presentation by Dr. Eldon G. Schafer
at the 55th Annual Convention of the
California Association of Community College
"Quality & Access"
November 9-11, 1984

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Complaints that Lane Community College's purchase order system was too complicated and not responsive caused me to direct a thorough review of the process. I appointed an interdepartmental team of eight people to examine what was happening. Serving on the team were two instructional department heads, two instructional department secretaries, the office manager of our Downtown Center, and the Financial Services Operations Manager. Assistance was given throughout the process by the Directors of Purchasing and Financial Services.

Their research was revealing as Exhibit #1 shows. Some 62 percent of all purchase orders processed in 1981-82 were for amounts under $100. These orders made up only 3.5% of the dollars expended in acquiring materials and services for college operations. In addition, as Exhibit #2 shows, the document flow and approval process -- from originator through payment of the final bill -- required 38 costly steps. We estimated that it cost the college $75 in supplies and staff time.

The "situation analysis" showed the following:

1. LCC policies required too many approval signatures on purchase orders.
2. The procurement procedures were not all located in one common source (e.g., the BOM).
3. LCC policy forbids the use of "confirming" purchase orders.
4. The open (blanket) purchase order is restricted by state law to a $500 limit.
5. A complete review of state and local purchasing policies and procedures needed to be done.
6. Inconsistencies were identified:
   (a) new employees lacked training in procurement procedures;
   (b) warehouse stock was not properly utilized.
7. Initial price estimates varied too much for appropriate encumberance processing.
8. Actual items purchased were not always those identified on initial purchase order.

After this analysis, several other areas were identified for further study.

A. We needed to push purchasing decisions to the lowest competent level.

1. We needed to have policies that allowed departments to do their job with a reasonable amount of control.
2. At the same time, we needed to acknowledge the budget responsibility of front-line administrators and to hold these administrators accountable. But, all budget actions do not require high-line approval; pushing the decision downward would result in fewer signatures required.
3. We needed to have a central source of information and clarification regarding the purchasing process. We had to have people understand this process.

4. We needed to establish a system of periodic review of purchasing policies with administrators.

5. We had to assure conformance to specifications as outlined in state and local policies.

Since greater flexibility would be available to budget administrators for purchasing decisions under $1,000, some additional conditions were identified for smaller orders.

B. Small purchase orders cost too much.

1. Part of the high cost was caused because too many people had to handle and sign individual orders.

2. Purchase orders were required for reimbursement purposes. There was no alternative.

3. Departments often were unable to give purchase order numbers to vendors in advance.

4. There is a ceiling of $15 per purchase for petty cash reimbursement.

5. Reimbursement for more than $15 requires the full process (i.e., multiple signatures and consequent high cost).

6. There was no acceptable alternative to a purchase order for small dollar amounts for out-of-town or out-of—state ordering.

This led to the identification of the target for this study. The target had to include a process which was:

a. in compliance with legal, Board, and Administrative policies;

b. clearly defined and described;

c. efficient;

d. consistent with strategic organizational structure;

e. designed for accountability;

f. positively reinforcing to users; and

g. "quality" based.

A number of long-range and short-range potential solutions were identified by the study group. Those were recorded for review and further study:

C. Purchase order potential solutions.

Possible Long-Range Solutions

1. Establish an electronic transfer system.
2. Use Visa cards for small-dollar purchases.
3. Put the warehouse catalog on an automated system with appropriate cross-walks.
4. Set up a record-a-call for receiving purchase order requests.

Possible Short-Range Solutions

1. Create a central information source regarding current purchase order policies, the Business Operations Manual.
2. Train and certify secretaries and department heads in current policies and the use of the information source.
3. Utilize Visa cards and petty cash for purchases under $100.
4. Study and gather data regarding the number of purchase orders for under $100.

5. Check with the auditors and legal counsel regarding the use of Visa and with Visa regarding the appropriate signatures needed.
6. Establish Visa use policies and control mechanisms.
7. Eliminate requirements to have all signatures for purchase orders of over $100.
8. Enforce board policies regarding buying outside of purchase order requests or change the Board policy.
9. Periodically ask departments if certain items need to be added to the warehouse.
10. Have department secretaries talk periodically regarding purchases and common needs, (e.g., bulk buying, adequacy of stock in the warehouse).
11. Determine the Public Contract Review Board requirements regarding the food service problem (include food in resale policies).

Following an analysis of the potential solutions, the use of VISA cards for purchases of under $100 was selected as the highest priority project to pursue. That proposal

was recommended to me in a presentation by the study team. I accepted the recommendation and directed financial staff to pursue the use of the VISA card system.

Some initial discussion was held between the director of Financial Services and a local bank to pursue the VISA card proposal. No significant problems were identified which might have stopped the project, though some negotiation did occur. The primary concern expressed by the bank was how would the cards be issued and controlled. This was resolved by entering into one master contract agreement with the bank and controlling the issuance of cards through the agreement. All cards would be issued by the bank and would be subject to the terms and conditions of the master agreement, making the process consistent for each card issued. Internally, a standard agreement would be developed which also contained the expectations and requirements from the college perspective, thus insuring compliance with state purchasing regulations.

Concurrent with discussions with the bank, a pilot project was being planned. A five-month test period was outlined and 17 cards were issued to departments to participate in the pilot project. The participating departments were selected based partly on information coming from the research data and partly on their desire to seek some resolution to the problem.

The test results showed the college avoided the costs associated with the preparation, issuing and processing of 86 purchase orders and the preparation, issuing and reconciliation of forty-five checks during the five month period. At the end of the test period, the departments in the pilot group were asked how the VISA system had worked for them. Typical responses were that the new system saves time, money and energy; that it eliminates paper shuffling; provides more flexibility; allows staff to shop sales and to shop by telephone; and increases department's ability to respond to unanticipated needs. It was determined that the program should then be extended to other interested

departments and that an increase in VISA card useage would result in further cost-avoidance of processing purchase orders under $100.

A total of 48 VISA cards have now been issued since the inception of the program. More than two-thirds of the instructional departments are presently using the VISA card. Group meetings were held with department heads and their support staff to encourage and facilitate participation.

Purchases are limited to material and supply items under $100 that can be charged to one object expense code. Only consumable items are eligible for purchase and each department administrator is responsible for the conditions of the card's use. The credit limit for each VISA card is $500 for each billing period. The department administrator is responsible for any charges made on the VISA card which exceeds the credit limit in a billing period. Expenses for travel, meals, equipment, etc. are not permitted with the VISA card.

When purchases are made, the department keeps the charge slip and is responsible for determining the accuracy of their monthly statement and for any corrective steps to be taken with the vendors. The bank also sends one monthly statement for each account to the Financial Services Office which shows the charges processed for payment. The statements are reviewed for compliance variances in the accounts payable area, then one check is prepared for purchases made that month, regardless of the number of purchases or the number of departments using their cards.

The process has reduced by nearly one-half the number of steps that were formerly required by departments, Financial Services and Purchasing Department staff. As Exhibit #3 shows, the former 38 steps have been reduced to 20.

During the first full year of application, 725 purchase orders were eliminated by using the VISA card application. It is difficult to point to specific departmental budgets and identify the avoidance of costs, but because of

the ease, flexibility and responsiveness to the needs of campus departments using the VISA card process, there is an indirect cost savings distributed throughout the College. Measurement statistics are not available in departments which identify how much of the estimated cost of $75 of processing a purchase order was avoided in each department. However, the ease of use and convenience does have a positive impact on College-wide resources. There are standards which estimate the cost of personnel time, materials and transportation in preparing a purchase order at $75. See Exhibit #4. Assuming that costs were avoided for 725 purchase orders (first full-year count), then approximately $54,000 of "usual" processing time became available for other activities.

In the current year, we are estimating that more than 1500 VISA card transactions will occur. That estimate is based on the first quarter activity only. If that estimate is accurate, more than $112,000 of processing costs will be avoided.

Equally as important as the cost-avoidance question is the ease, flexibility and responsiveness to departmental needs and requirements that the VISA card application allows. The process permits a department to convert purchases of small dollar consumable items from an expensive, time consuming purchase order process, to a petty cash process. It also accommodates telephone orders which a typical cash box transaction process would not.

Costs incurred by the VISA card process are nominal. The annual VISA card fee is $15 per card. For the 48 cards issued to date, the costs have been $720.

Since the process was instituted at LCC and the NACUBO/USSF award made in July 1984, numerous requests for information have been received. It is not known how many (if any) other institutions have implemented the program. We think it's worth your consideration.

Exhibit I

LANE COMMUNITY COLLEGE

INITIAL PURCHASE ORDER VERTEAM RESEARCH

1981-82 FISCAL YEAR

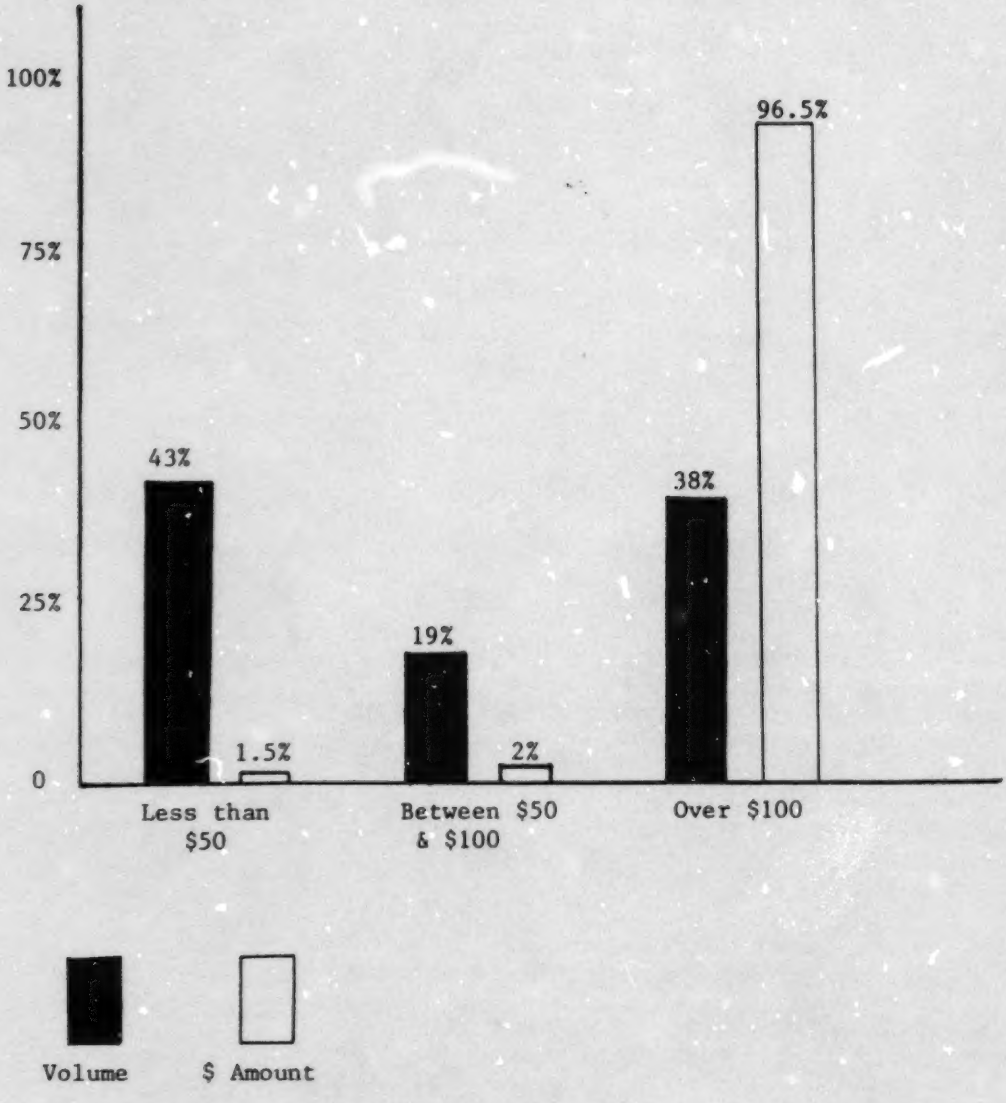


Exhibit II

PURCHASE ORDER PROCESS
FLOWCHART (38 STEPS)

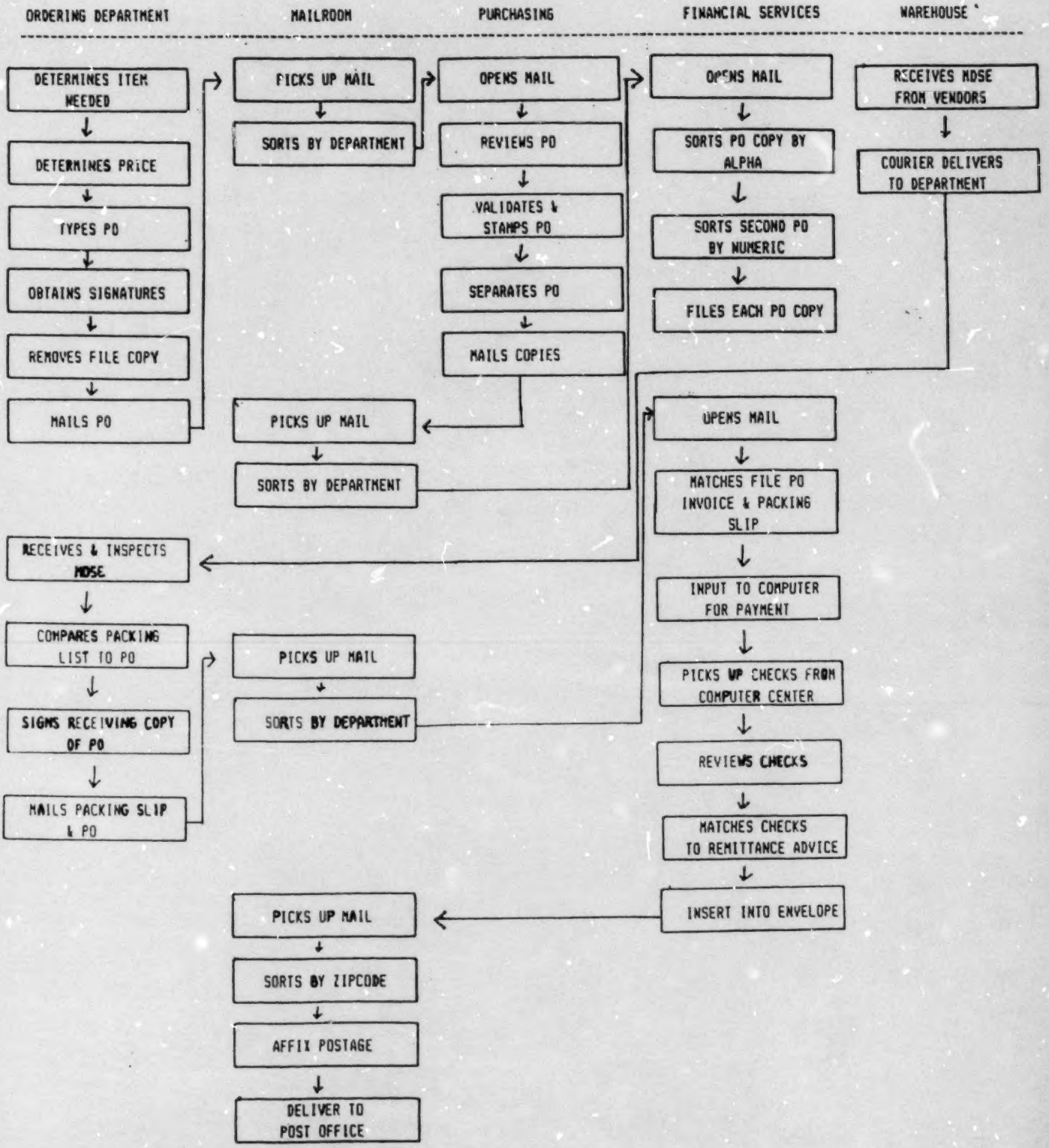
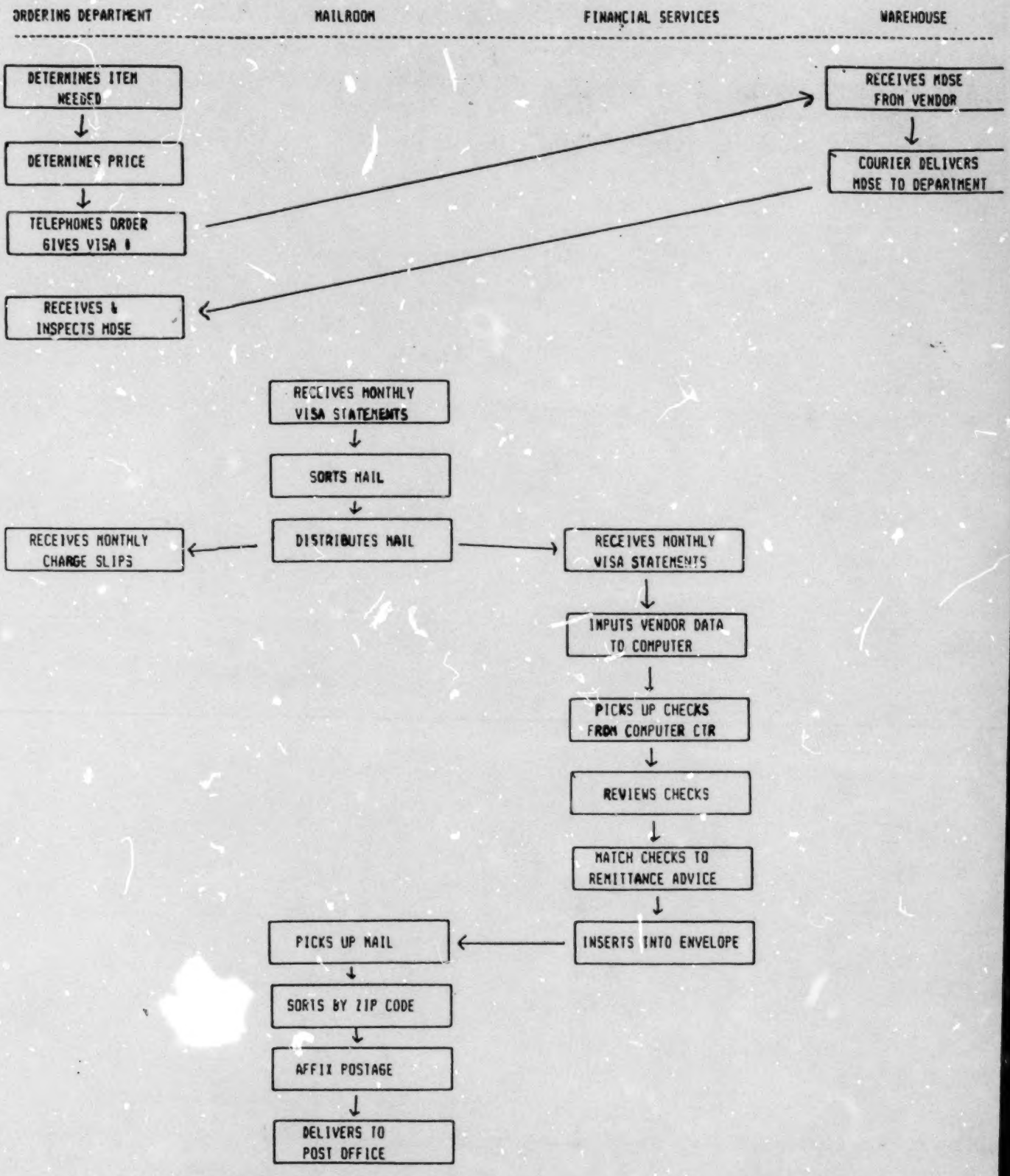


Exhibit III

VISA CARD PROCESS
FLOW CHART (20 STEPS)



LANE COMMUNITY COLLEGE
Purchase Order Cost Estimates

	Labor				Materials
	Operations	Inspections	Transp.	Total	
Ordering Department	6	4	-	10	
Purchasing	4	1	-	5	Purchase **Order Form** (5 part)
Financial Services	9	2	-	11	Check plus printing, enve**l**ope
Mailroom	1	4	5	10	**Postage**
Warehouse	-	-	2	2	
Totals	20	11	7	38	

Assign Estimated Values to Labor:

Operations ($2.25 x 20)	$45.00
Inspections ($2.00 x 11)	22.00
Transportation ($1.00 x 7)	7.00
Subtotal Labor	$74.00
Plus: Materials Cost	
Check plus printing	0.45
Envelope	0.05
P.O. (5 part precarbon set)	0.55
Postage	0.20
Total	$75.25

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